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Extra
Apache cites poor Waha prices for decision to cut Permian gas production

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Record negative prices at the Waha Hub led one of the primary independents operating in the Permian Basin to significantly cut its natural gas production.

Apache Corp. said in an April 23 statement that it initiated gas volume production deferrals from its Alpine High play in late March, with current deferrals at 250 MMcf/d of production. The company blamed the need for the deferrals on "extremely low prices" at Waha, which may be an understatement as producers are now paying midstream companies to carry their gas. On April 3, Waha spot prices plunged to a record -$3.38/MMBtu and has remained in negative territory since. Future prices for gas for May delivery were at -$2.80/MMBtu early afternoon April 23.

In the company's statement, Apache President and CEO John Christmann said it would return its gas to sales as soon as prices allow. "We are carefully managing these actions so there is no adverse impact on long-term wellbore integrity or reservoir productivity and look forward to returning this production to market as soon as practical."

Christmann said the decision to defer gas production would help the company's financial performance even as volumes are decreased.

"This is the proper approach from both an environmental and economic perspective relative to other industry practices such as flaring or selling associated gas at a negative or unprofitable price," he said.

Christmann cited the lack of gas pipeline capacity out of the Permian Basin for the price crunch at Waha. He said that in response, Apache has taken several steps to reduce the effect on the company beyond production cuts. Those steps included contracting more than 1 Bcf/d of capacity on Kinder Morgan Inc.'s Gulf Coast Express and Permian Highway projects, which will come online later this year and in 2020, respectively.

"At such time, Apache will be selling the vast majority of its Permian gas at a variety of Gulf Coast price points," he said.

With Waha prices still well into the negatives, Apache's deferrals could stay in place for some time as the company waits for the new pipeline capacity to come online. If that occurs, some analysts believe that it could sting Apache subsidiary Altus Midstream Co.'s earnings even if it has minimal effect on Apache.

"It seems like these production deferrals could remain ongoing at least until Gulf Coast Express starts up in October which likely puts the Altus EBITDA guide at some risk," Mizuho analyst Paul Sankey said.

In its commentary on Apache's move, Tudor Pickering Holt & Co. said it believes that Apache needs to go into greater detail about how the deferrals will affect its production plans for the rest of 2019.

"We'll be looking for color on volumes deferred thus far and the outlook from now through the scheduled

[Gulf Coast Express] in-service date, with today's disclosure only quantifying current deferrals of ~250mmcf/d gross," the firm said. "At this point, there have been no changes to [Apache] activity plans, APA Alpine High 2019 exit production guidance, or [Altus] FY'19 EBITDA."

Apache stock was down a little more than 1.4% to $36.57 per share in early afternoon trading on the New York Stock Exchange on April 23.

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